

**PROPERTY TAX
Omnibus Tax Bill
Articles 6-7, 9-11, 13, 16**

July 14, 2021

**Property Taxes and Local Aids Only --
See Separate Analysis for State Taxes**

	Yes	No
DOR Administrative Costs/Savings	X	

Department of Revenue
Analysis of Special Session Laws 2021, Chapter 14, Articles 6-7, 9-11, 13, 16

	Fund Impact			
	<u>F.Y. 2022</u>	<u>F.Y. 2023</u>	<u>F.Y. 2024</u>	<u>F.Y. 2025</u>
	(000's)			
<u>Article 6: Property Taxes</u>				
Fire Special Taxing Districts Authorized	\$0	\$0	\$0	\$0
Tribal Land Exemption				
Refund of State General Tax	(\$20)	\$0	\$0	\$0
Property Tax Refund Interaction	\$0	(\$10)	(\$10)	(\$10)
Qualifying Relatives for Ag Homestead				
Property Tax Refund Interaction	\$0	(unknown)	(unknown)	(unknown)
Ag Homestead Market Value Credit	\$0	(unknown)	(unknown)	(unknown)
Estate Tax	\$0	(unknown)	(unknown)	(unknown)
Homestead Deadlines Modified				
Property Tax Refund Interactions				
Homestead Application by Dec. 31	\$0	(\$70)	(negligible)	(negligible)
Veteran with a Disability Exclusion	\$0	\$30	negligible	negligible
SFIA 10-Acre Rule Modified	(unknown)	(unknown)	(unknown)	(unknown)
Property Tax Refund Interaction	unknown	unknown	unknown	unknown
Class 4d Tier Limit Reduced	\$0	\$0	(\$530)	(\$630)
State General Levy Modified	\$0	(\$10,650)	(\$20,100)	(\$20,100)
Income Tax Interaction	\$0	\$0	\$600	\$600
Supplemental Information Required with Notice of Proposed Property Taxes	\$0	\$0	\$0	\$0
Property Tax Refund Income Definition Modified	\$0	(\$4,700)	(\$4,800)	(\$4,900)
Special Assessments Allowed for Energy Improvement	\$0	\$0	\$0	\$0

4d Affordable Housing Report	\$0	\$0	\$0	\$0
Review of Utility Pipeline Valuation Process	\$0	\$0	\$0	\$0

Article 7: Aids and Credits

CPA Board of Public Defense Transfer	\$0	\$0	\$0	\$0
PILT Granelda Unit	\$0	(\$8)	(\$8)	(\$8)
Property Tax Refund Interaction	\$0	negligible	negligible	negligible
Income Tax Interaction	\$0	negligible	negligible	negligible
Local Homeless Prevention Aid	\$0	\$0	(\$20,000)	(\$20,000)
Property Tax Refund Interaction	\$0	\$0	\$510	\$510
Income Tax Interaction	\$0	\$0	\$210	\$210
Supplemental City Aid	\$0	(\$5,053)	\$0	\$0
City of Floodwood Grant	(\$250)	\$0	\$0	\$0
Local Government Grants	(\$29,355)	\$0	\$0	\$0

Article 9: Tax Increment Financing

TIF Temporary Use of Increment Allowed	\$0	\$0	\$0	\$0
TIF Pooling Rules Expanded	\$0	\$0	\$0	\$0
TIF Five-Year Rule Extended	\$0	\$0	\$0	\$0
TIF – Minnetonka, Richfield, St. Louis Park	\$0	\$0	\$0	\$0
TIF – Bloomington	\$0	\$0	\$0	\$0
TIF – Burnsville	\$0	\$0	\$0	\$0
TIF – Mountain Lake	\$0	\$0	\$0	\$0
TIF – Ramsey	\$0	\$0	\$0	\$0
TIF – Wayzata	\$0	\$0	\$0	\$0
TIF – Windom	\$0	\$0	\$0	\$0

Article 10: Public Finance

Miscellaneous Public Finance Changes	\$0	\$0	\$0	\$0
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Article 11: Miscellaneous

Iron Ore Bearing Material Definition Modified	\$0	\$0	(\$110)	(\$220)
Taconite Transfer to City of Biwabik	\$0	\$0	\$0	\$0
Melrose Fire Remediation Grant	(\$644)	\$0	\$0	\$0
Alexandria Fire Remediation Grant	(\$120)	\$0	\$0	\$0

Articles 13, 16: Department Policy and Technical Provisions

Policy and Technical Provisions	\$0	\$0	\$0	\$0
General Fund Total	(\$30,389)	(\$20,461)	(\$44,238)	(\$44,548)

Various Effective Dates

***Non-General Fund Impacts**

Taconite Environmental Protection Fund

Iron Ore Bearing Material Definition Modified	\$250	\$740	\$1,080	\$1,190
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Douglas J. Johnson Economic Protection Fund

Iron Ore Bearing Material Definition Modified	\$130	\$400	\$580	\$630
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All Other Taconite Funds

Iron Ore Bearing Material Definition Modified	\$340	\$1,050	\$1,310	\$1,420
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REVENUE ANALYSIS DETAIL

Article 6: Property Taxes

Fire Special Taxing Districts Authorized (Sections 1, 11, 13, 17)

The effective date is the day following final enactment.

Under current law, legislative approval is required to create fire protection special taxing districts. Emergency medical service districts may be created but have levy limits and cannot incur debt.

The new law allows for the creation of special taxing districts to provide fire protection and/or emergency medical services without legislative approval. Districts have the authority to levy without limit and/or incur debt. The new law also removes the levy limit for the Cloquet Area Fire and Ambulance Special Taxing District, making language consistent with other fire and EMS districts.

- The new law is assumed to not impact the state general fund. If this provision leads to the creation of additional special taxing districts to provide fire protection and/or emergency medical services, it is assumed the property tax levies used to fund these districts will be shifted from the current general levies of the local jurisdictions.
- It is possible the change in levy authority will lead to lower or higher levies for taxpayers.

Property Tax Exemption for Tribal Land (Section 2)

The effective date for assessments is beginning with assessment year 2021.

The effective date for refunds of state general tax is the day following final enactment.

The new law will exempt property in Cass County that: i) is owned by a federally recognized Indian tribe; ii) was on January 2, 2018, erroneously treated as exempt under subdivision 7 (the exemption for institutions of public charity); and iii) is used for the same purpose as it was used on January 2, 2018. For assessment year 2021 an exemption application must be filed by August 1, 2021. The owner of property exempted by the new law is also eligible for a refund of any state general tax paid for property taxes payable in 2020 and 2021.

- According to information provided by Cass County, approximately 36 parcels will qualify for the exemption.
- State general tax paid on these parcels in 2020 and 2021 will be refunded by the state. This will reduce state general tax collections in fiscal year 2022 by approximately \$20,000.
- There will be no impact on state general tax collections in payable year 2022 and thereafter because the tax rate will be adjusted to yield the amount of revenue required by statute. The tax reduction for parcels receiving the exemption will be shifted onto the other properties subject to the state levy.
- Beginning with taxes payable in 2022, the new law will shift approximately \$170,000 in local property taxes onto other property types, including homesteads, resulting in an increase in state-paid homeowner refunds.
- Tax year impact is allocated to the following fiscal year.

Agricultural Homestead Qualifying Relatives Modified (Section 3)

The effective date is beginning with taxes payable 2022.

Under current law, agricultural relative homestead may be granted if a grandchild, child, sibling, or parent of the owner was occupying or farming the property.

The new law expands qualifying relatives for agricultural relative homestead to include grandparents, stepparents, stepchildren, uncles, aunts, nephews, and nieces.

- By expanding the list of qualifying relatives, it is assumed that the number of properties qualifying as agricultural relative homestead will increase statewide. The classification rate for all properties changing from agricultural non-homestead land to agricultural relative homestead land will change from 1.00% to 0.50% for the first \$1.89 million of value and 1.00% for the remaining value.
- The new law will shift property taxes away from properties newly qualifying for agricultural relative homestead and onto all other properties, including other homesteads.
- As a result of property taxes shifting onto homesteads, property tax refunds paid by the state will increase by an unknown amount beginning in fiscal year 2023.
- The new law also increases the market value eligible for the agricultural homestead market value credit, increasing the credit by an unknown amount beginning in taxes payable 2022.
- Adequate data is not available to estimate the impact of the new law on estate taxes. Since the additional property that will be available for the farm subtraction is assumed to be a small share of the total currently available, the impact on estate tax revenue will be small. However, it is likely that the impact could be significant for a small number of taxpayers.

Homestead Application Deadlines Modified (Sections 4-5, 8)

The effective date is beginning with assessments in 2021.

Homestead Established - Application Due by December 31:

Under current law, any property used as a homestead by December 1 will receive homestead classification for the current assessment year if an application is submitted by December 15 of the same year.

Under the new law, any property used as a homestead by December 31 will receive homestead classification for the current assessment year if an application is submitted by December 31 of the same year.

Homestead Exclusion for Veterans with a Disability - Application Due by December 31:

Under current law, the homestead of a veteran with a disability becomes eligible for a valuation exclusion in the current assessment year if the application is received by December 15. For applications received after December 15, the exclusion becomes effective for the following assessment year.

Under the new law, the due date for applications will be changed to December 31, and all approved applications filed by December 31 will receive the exclusion for the current assessment year.

- Due to property tax refund interactions, the new law will shift general fund amounts from one fiscal year into the previous fiscal year.
- Allowing homesteads to be established by December 31 will shift state costs.

- The later deadline for the veterans' homestead exclusion will shift state savings.
- The main impact occurs in the initial fiscal year. A portion of the state-paid property tax refund that under current law is saved or spent in one fiscal year will now be shifted into the previous fiscal year.
- The impact of shifts in subsequent years is the difference between forecasted refund savings or costs under current law and the effect of shifting those amounts into the previous fiscal year.
- The first year the state general fund will be impacted under the new law is for applications filed in 2021 for taxes payable in 2022 (property tax refunds in FY 2023).

Homestead Established - Application Due by December 31:

- For homestead property that is sold between December 2 and December 31, the new law will have no impact on the local tax base or on state-paid property tax refunds.
- However, if a homestead is established on previously non-homestead property after December 1, the new law will reduce taxable market value within local taxing jurisdictions and might increase state-paid property tax refunds.
- It is estimated that approximately 330 homesteads will be established on previously non-homestead property between December 2, 2021 and December 31, 2021.
- The reduced tax on the newly homesteaded property will shift property taxes (payable in 2022) onto all other property types, including other homesteads. This will increase state-paid homeowner refunds. This cost is included in the overall cost to the state.
- Some homesteads established after December 1 might be eligible for a property tax refund.
- It is assumed that approximately 120 homesteads established between December 2, 2021 and December 31, 2021 will apply for a refund.
- Under the new law, an estimated \$70,000 of homeowner refunds currently projected to be paid by the state in FY 2024 will shift into FY 2023.
- For subsequent years (beginning in FY 2024) the net cost to the state general fund is estimated to be less than \$5,000.

Homestead Exclusion for Veterans with a Disability - Application Due by December 31:

- The new law will allow veterans who move after December 15 to reapply for the exclusion in the same assessment year as the move occurred.
- In addition, the later application date will allow newly eligible veterans to apply after December 15 of the current year and receive the exclusion for the current assessment year, rather than the following assessment year (as under current law).
- It is assumed that approximately 50 applications will be received in calendar year 2021 between December 16 and December 31.
- The new law will shift an estimated \$100,000 in property tax (payable in 2022) onto all other property types, including other homesteads. This will increase homeowner property tax refunds. The overall savings to the state is net of these costs.
- The later application deadline will result in a net savings to the state due to a reduction in property tax refunds paid to veteran homesteads.
- Under the new law, an estimated \$30,000 of refund savings currently projected for FY 2024 will shift into FY 2023.
- For subsequent years (beginning in FY 2024) the net savings to the state general fund is estimated to be less than \$5,000.

SFIA 10-Acre Rule Modified (Sections 6, 18)

Effective for assessments beginning with assessment year 2022.

Effective for determinations of violations of the conditions of enrollment after June 30, 2021.

Under current law, when a parcel is 20 or more acres in size and improved with a structure (that is not a minor, ancillary nonresidential structure), then:

- For the purposes of property classification, the structure and the immediately surrounding 10 acres are classified according to the use of the structure.
- However, for the purposes of enrolling forest land in the Sustainable Forest Incentive Act (SFIA) program, a minimum of 3 acres must be excluded from the enrolled land.
- This could result in 7 acres of enrolled land receiving a classification that violates the SFIA definition of forest land (which excludes land used for residential or agricultural purposes).
- When any portion of the enrolled land is found to violate the conditions of enrollment in the SFIA program, then:
 1. the entire parcel is removed from the program;
 2. a penalty is assessed.
- The penalty consists of up to two payment amounts:
 1. the payments issued to the entire parcel for each year under the current covenant, or the payments issued to the entire parcel for one-half the covenant length, whichever is less, plus interest;
 2. if a reclassification has occurred since enrollment, an additional penalty is assessed equal to 30% of the estimated market value of the reclassified acres.

Under the new law, when a parcel is 20 or more acres in size and improved with a structure (that is not a minor, ancillary nonresidential structure), then:

- The number of acres assigned to the structure must equal the number of acres excluded from the SFIA covenant due to the structure, but no less than 3 acres;
 - SFIA parcels that received a 10-acre split-classification prior to assessment year 2022 will be deemed to have met the conditions of enrollment if at least 3 acres surrounding the structure were excluded from enrollment.
- For lands enrolled in SFIA with a split-classification due to a structure, the new law will:
 - reduce penalty amounts collected by the state;
 - increase future incentive payments, because parcels that would have been removed will continue to remain in the SFIA program.
 - It is unknown how many parcels will be impacted. Actual penalties (as determined under current law) depend on individual circumstances, based on a combination of:
 - covenant length;
 - the number of years the land has been bound under the current covenant;
 - total payments issued to the parcel under the current covenant;
 - whether a reclassification has occurred since enrollment.
 - In addition, the new law may result in classification changes. On impacted parcels, up to 7 acres might receive a new classification. In some cases, this could result in future property tax changes (either an increase or a decrease, depending on the current classification), as well as a potential decrease in future property tax refunds (if the structure is a residential, agricultural, or blind-disabled homestead). It is unknown how many total acres will be subject to reclassification.

First Tier Valuation Limit for Class 4d Property Decreased (Section 7)

The effective date is beginning with assessment year 2022.

Under current law, the first tier valuation limit for each unit of class 4d low income rental housing property is adjusted annually by the average statewide change in estimated market value of property classified as class 4a apartments and 4d low income rental housing, excluding valuation change due to new construction. The first tier has a classification rate of 0.75% and the second tier has a classification rate of 0.25%. The first tier valuation limit for assessment year 2021 is \$174,000.

The new law reduces the first tier valuation limit for each unit of class 4d property to \$100,000 for assessment years 2022 and 2023. The tier limit will continue to be annually adjusted beginning with assessment year 2024.

- According to data from Minnesota Housing Finance Agency, there were about 76,000 units of class 4d low income rental housing property statewide in 2019.
- In assessment year 2020, there were approximately 3,200 parcels statewide that contained class 4d low income rental housing property. About 200 of those parcels had property value above the assessment year 2020 tier limit of \$162,000. The total market value for class 4d property in the same year was \$7.1 billion statewide.
- By decreasing the first tier valuation limit for class 4d property, the classification rate for a portion of the value currently below the tier limit changes from the first tier rate of 0.75% to the second tier rate of 0.25%. It is estimated that approximately 18% of class 4d value currently in the first tier will qualify for the second tier under the new law.
- The new law shifts property taxes away from class 4d properties onto all other properties, including homesteads.
- As a result of property taxes shifting onto homesteads, property tax refunds paid by the state will increase by \$530,000 in fiscal year 2024 and \$630,000 in fiscal year 2025 and after.

State General Levy Decreased, Commercial-Industrial Exclusion Increased (Sections 9-10)

The effective date is beginning with taxes payable in 2023.

Under current law, the state general levy for commercial-industrial property is \$737,090,000 and is paid for by specified commercial-industrial property, except the first \$100,000 of market value.

The new law changes the tax base for the state general levy for commercial-industrial property to exclude the first \$150,000 of market value, instead of the first \$100,000 under current law. The levy amount is reduced to \$716,990,000.

- Because the exemption of the first \$150,000 of commercial-industrial property is combined with a decrease in the state general levy amount, taxes will not increase on the tax base that remains in the state general levy.
- The state general levy will decrease by \$20.1 million per year beginning in taxes payable 2023. These numbers have been converted to fiscal years for the purpose of this estimate.
- Lower property taxes will reduce deductions on corporate and individual income tax returns, increasing state tax collections beginning in FY 2024.

Supplemental Information Required with Notice of Proposed Property Taxes (Sections 12)

The effective date is for property taxes payable in 2023 and thereafter.

The new law requires a supplemental information statement be provided and delivered with proposed property tax notices to taxpayers. The statement will include budgeting information for counties, cities/townships, and school districts.

- The supplemental informational statement has no impact on the state general fund.

PTR Income Definition Modified to Exclude Veterans Disability Compensation (Section 14)

Effective beginning for refunds based on rent paid in 2021 and property taxes payable in 2022.

Under current law certain veterans benefits are not included in federal adjusted gross income, but they are included in the definition of household income for the purpose of calculating property tax refunds. These nontaxable veterans benefits include disability compensation, military disability pensions, and education and training payments.

The new law excludes nontaxable veterans disability compensation from the definition of household income used to calculate property tax refunds.

- The estimates are based on the February 2021 forecast.
- Under the new law, the amount of household income used to determine property tax refunds will be reduced by excluding veterans disability compensation, which will increase refunds to eligible homeowners and renters receiving veterans benefits.
- It is assumed that approximately 34,000 homeowners and renters will receive an increased property tax refund, resulting in an increase in state general fund costs beginning in FY 2023. The average refund increase is estimated to be approximately \$140.
- A two percent annual growth in refunds is assumed.

Special Assessments for Energy Improvement Allowed (Sections 15-16)

The effective date is beginning with special assessments payable in 2022.

Under current law, special assessments cannot be used for energy improvements.

The new law allows special assessments for qualifying energy improvement projects meeting certain requirements.

- Allowing special assessments on energy improvements has no assumed impact to the state general fund.

4d Affordable Housing Report (Section 19)

The effective date is the day following final enactment.

The new law requires the commissioner of revenue, in consultation with the Minnesota Housing Finance Agency, to produce a report on class 4d low income housing property and local 4d affordable housing programs.

The report must include information on the number 4d units for each property, property taxes paid, property tax reductions due to 4d classification, potential tax base changes from lowering the 4d classification rate, and the total number 4d units in the last ten years. The report must also include a

profile of income limits and area median incomes that determine eligibility for assisted housing programs. The report must be completed by January 15, 2022.

- There is no impact to the state general fund.

Review of Utility and Pipeline Valuation Process (Section 20)

The effective date is the day following final enactment.

The new law requires the commissioner of revenue to initiate a review of the framework and methodology used to assess the value of personal property owned by a utility or pipeline.

- There is no impact to the state general fund.

Article 7: Aids and Credits

County Program Aid Board of Public Defense Transfer Authorized (Section 1)

The effective date is July 1, 2021.

Under current law, the Department of Revenue retains \$500,000 of the County Program Aid appropriation to make reimbursements to the Department of Management and Budget for costs associated with court-ordered counsel.

The new law will instead transfer the \$500,000 to the Board of Public Defense.

- There is no effect on the state general fund from changing the recipient of the annual transfer.

PILT Granelda Unit (Sections 2, 4)

The effective date is aids payable 2022.

Under current law, state park land qualifies for the Payment in Lieu of Property Taxes (PILT) program. Local governments with state park land in PILT receive a state-paid aid equal to either \$5.133 per acre or 0.75 percent of the appraised market value.

The Lake Vermilion-Soudan Underground Mine State Park land currently receives a PILT payment equal to 1.5 percent of the appraised market value, and the value used to determine the PILT cannot be less than the 2010 appraised valuation.

The new law adds additional areas of land to the Lake Vermilion-Soudan Underground Mine State Park for the purposes of PILT and will refer to this new land as the Granelda Unit. Beginning for aids payable 2022, the Granelda Unit will receive a PILT of 1.5% of the appraised value. Future appraised values used to determine PILT aid could not be lower than the 2021 appraised valuations.

- The estimated appraised value of the Granelda Unit is \$1.1 million for assessment years 2021 through 2023.
- Under current law, the Granelda Unit of state park land would provide local governments with approximately \$8,000 in PILT aid starting in FY2023.

- Under the new law, local governments will receive approximately \$16,000 in PILT for lands in the Granelda Unit starting in FY2023. The cost to the state general fund is the difference in PILT aid under current law compared to what will be paid under the new law.
- It is assumed that local governments receiving an increase in aid will reduce property tax levies by a portion of the increase. Lower levies will reduce property taxes on all property.
 - Lower property taxes will result in lower homeowner property tax refunds, reducing costs to the state general fund.
 - Lower property taxes will result in lower income tax deductions, increasing revenues to the state general fund.

Local Homeless Prevention Aid Established (Section 3)

The effective date is aids payable 2023-2028.

The new law creates a new state aid program targeted at preventing homelessness for children. The annual appropriation of \$20 million will be allocated to counties based on:

- The greater of \$5,000 or the county's statewide population share multiplied by 5% of the appropriation; plus
- The remaining appropriation split by each county's three-year statewide share of students experiencing homelessness

The aid will be used to fund family homeless prevention and assistance projects and will expire after aids payable 2028.

- The state aid payments to counties will first be made in calendar year 2023, increasing state general fund costs beginning in FY2024 and ending in FY2029.
- Based on the most recent data on student homelessness, aid amounts will range from \$5,000 for 7 counties up to \$5.8 million to Hennepin County.
- It is assumed that counties receiving an increase in aid will reduce property tax levies by a portion of the increase. Lower levies reduce property taxes on all property.
 - Lower property taxes will result in lower homeowner property tax refunds, reducing costs to the state general fund.
 - Lower property taxes will result in lower income tax deductions, increasing revenues to the state general fund.

Supplemental 2022 City Aid Distribution (Section 5)

Effective for aids payable in 2022.

The new law provides a one-time supplemental aid payment to cities that are certified to receive less local government aid (LGA) in payable year 2022 than it received in 2021. The amount of the supplemental aid is equal to the reduction in a city's LGA between 2021 and 2022. The supplemental aid will not be included in the calculation of future LGA payments.

- For aid payable year 2022, there are 95 cities that will qualify to receive supplemental aid.
- Providing a temporary supplemental aid payment to cities will increase state general fund costs by \$5.053 million in calendar year 2022.

City of Floodwood Grant (Section 6)

The effective date is the day following final enactment.

The new law provides a \$250,000, one time, grant to the city of Floodwood from the state general fund in fiscal year 2022. The grant is to be spent on the Floodwood City-wide Street and Infrastructural Project.

- The grant increases state general fund costs by \$250,000 in FY2022.

Local Government Grants (Section 7)

The effective date is the day following final enactment.

The new law creates a one-time appropriation of \$29,354,688 in fiscal year 2022 to provide grants to counties impacted by the Enbridge Inc. property tax judgement. The grants must be used to refund Enbridge Inc. for overpayment of property taxes based on assessment years 2012 to 2018. The total appropriation must be paid by August 15, 2021, and allocated as follows:

- (1) \$91,781 to Aitkin County.
- (2) \$2,225,319 to Beltrami County.
- (3) \$2,573,615 to Carlton County.
- (4) \$2,631,052 to Cass County.
- (5) \$3,690,961 to Clearwater County.
- (6) \$549,582 to Hubbard County.
- (7) \$5,591,840 to Itasca County.
- (8) \$1,189,765 to Kittson County.
- (9) \$2,404,267 to Marshall County.
- (10) \$2,551,225 to Pennington County.
- (11) \$1,166,654 to Polk County.
- (12) \$1,904,685 to Red Lake County.
- (13) \$2,783,942 to Saint Louis County.

- The grants increase state general fund costs by \$29.355 million in FY 2022.

Article 9: Tax Increment Financing

Temporary Use of Increment Allowed (Section 1)

The effective date is the day following final enactment.

Under current law, there are a number of restrictions on how tax increment financing (TIF) authorities can spend any tax increment generated by a TIF district.

The new law allows unobligated increment to transfer increment either: 1) to provide improvements, loans, interest rate subsidies, or assistance to private development construction or rehabilitation of buildings, if doing so will keep jobs in the state or 2) to make an equity or similar investment in a company in order to make construction of a development meeting the previous criteria financially feasible. The maximum transfer amount is the excess increment remaining after the required payments of obligations that come due in the six months following the transfer. This section is effective the day following enactment and applies to unobligated increments from any district, regardless of when the request for certification was made. The authority to transfer

increments expires on December 31, 2022. All transferred increments must be spent by December 31, 2025.

- The changes to the general TIF provisions may have an impact on the local tax base and tax rate in the future and may result in a small change in property tax refunds paid by the state.

Pooling Rules Expanded (Section 2)

The effective date is the day following final enactment.

Under current law, pooling rules require that a certain percentage of tax increments must be spent on activities within each tax increment financing (TIF) district. TIF districts may increase, by up to ten percent, the permitted amount of expenditures for activities outside the district if the increase is used for specific purposes, such as low-income housing projects.

The new law expands permitted expenditures for activities outside the district by expanding the types of housing projects eligible for development to include owner-occupied housing.

- The changes to the general TIF provisions may have an impact on the local tax base and tax rate in the future and may result in a small change in property tax refunds paid by the state.

Extension of Five-Year Rule for Certain TIF Districts (Sections 3-4)

The effective date is for districts which request for certification was made after December 31, 2017.

The five-year rule essentially requires development activity for a TIF district to be finished within a five-year period that begins with certification of the district's original tax capacity. After this five-year period has expired, increments may only be spent to pay off obligations that were incurred to fund work done during the five-year period or to the extent permitted under the pooling rules. When these obligations are paid or enough money has been collected to pay them, the district must be decertified.

The new law extends the five-year rule to eight years for redevelopment districts located outside the defined metropolitan area that were certified after December 31, 2017 and before June 30, 2020.

- The changes to the general TIF provisions may have an impact on the local tax base and tax rate in the future and may result in a small change in property tax refunds paid by the state.

Tax Increment Financing – Minnetonka, Richfield, St. Louis Park (Section 5)

The effective date is following local approval.

Under current law, pooling rules require that 75 percent tax increments must be spent on activities within each redevelopment tax increment financing (TIF) district. Redevelopment districts may spend up to 25 percent of increments on permitted activities outside the district but within a defined project area.

The new law allows the cities of Minnetonka, Richfield, and St. Louis Park or their respective economic development or housing and redevelopment authorities to transfer tax increment accumulated for housing development purposes to the city's housing trust fund. Tax increment transferred under this authority may only be used to make grants, loans, and loan guarantees for

development, rehabilitation, or financing or housing or to match other funds for housing projects. Each city must also prepare a report to the legislature containing information on each housing project financed with transferred increment. The authority to transfer increment expires December 31, 2026.

- The exceptions to special TIF provisions have no impact the local tax base or tax rates.
- The new law has no impact on the state general fund.

Tax Increment Financing – Bloomington (Sections 6-7)

The effective date is following local approval.

The new law authorizes the city of Bloomington or its housing and redevelopment authority to establish two tax increment financing (TIF) districts: American Boulevard and 98th & Aldrich. Each district is limited to the parcels and rights-of-way specified in the new law.

The new law includes special rules for both districts:

- Under current law, there are requirements that must be met in order to qualify as a redevelopment district. Under the new law, the districts are deemed to meet all such requirements.
- Under current law, at least 90% of revenues must be used to finance the costs of correcting conditions that allowed a district to be designated a redevelopment or renewal and renovation district. Under the new law, expenditures in the districts are deemed to meet this requirement.

Another special rule will apply only to the American Boulevard district. Under current law, pooling rules require that a certain percentage of tax increments be spent on activities within each TIF district. The new law allows the district to consider increments spent on undergrounding or overhead power lines, transformers, and related infrastructure within the project area as activities within the district.

- The changes to these special TIF provisions may have an impact on the local tax base and tax rate in the future and may result in a small change in property tax refunds paid by the state.

Tax Increment Financing – Burnsville (Section 8)

The effective date is following local approval.

The new law authorizes the creation of one or more redevelopment tax increment financing (TIF) districts within the Burnsville Center mall area. The new law makes some exceptions for any districts established under its authority. These include removing limitations on property eligible to be in a redevelopment district, removing limitations on the permitted use of increment from the district, and allowing increment to be used for the construction and acquisition of property for a bridge, tunnel, or other connector from the mall across certain roads and right-of-ways.

- The changes to this special TIF provision may have an impact on the local tax base and tax rate in the future and may result in a small change in property tax refunds paid by the state.

Tax Increment Financing – Mountain Lake (Section 9)

The effective date is following local approval.

The five-year rule essentially requires development activity for a tax increment financing (TIF) district to be finished within a five-year period that begins with certification of the district's original tax capacity. After this five-year period has expired, increments may only be spent to pay off obligations that were incurred to fund work done during the five-year period or to the extent permitted under the pooling rules. When these obligations are paid or enough money has been collected to pay them, the district must be decertified.

The new law extends the deadline of the five-year rule from five years to ten years for TIF District No. 1-8 in Mountain Lake.

- The changes to this special TIF provision may have an impact on the local tax base and tax rate in the future and may result in a small change in property tax refunds paid by the state.

Tax Increment Financing – Ramsey (Section 10)

The effective date is following local approval.

The five-year rule essentially requires development activity for a tax increment financing (TIF) district to be finished within a five-year period that begins with certification of the district's original tax capacity. After this five-year period has expired, increments may only be spent to pay off obligations that were incurred to fund work done during the five-year period or to the extent permitted under the pooling rules. When these obligations are paid or enough money has been collected to pay them, the district must be decertified.

The new law extends the deadline of the five-year rule by two years to November 28, 2023 for TIF District No. 14 in Ramsey.

- The changes to this special TIF provision may have an impact on the local tax base and tax rate in the future and may result in a small change in property tax refunds paid by the state.

Tax Increment Financing – Wayzata (Section 11)

The effective date is following local approval.

Under current law, pooling rules require that a certain percentage of tax increments must be spent on activities within each tax increment financing (TIF) district.

The new law allows the city of Wayzata to use increments generated from TIF District No. 6 for the design and construction of the lakefront pedestrian walkway and community transient lake public access infrastructure related to the Panoway on Wayzata Bay project. All of these expenditures are considered activities within the district.

- The changes to this special TIF provision may have an impact on the local tax base and tax rate in the future and may result in a small change in property tax refunds paid by the state.

Tax Increment Financing – Windom (Sections 12)

The effective date is following local approval.

The five-year rule essentially requires development activity for a tax increment financing (TIF) district to be finished within a five-year period that begins with certification of the district's original tax capacity. After this five-year period has expired, increments may only be spent to pay off obligations that were incurred to fund work done during the five-year period or to the extent permitted under the pooling rules. When these obligations are paid or enough money has been collected to pay them, the district must be decertified.

The new law extends the deadline of the five-year rule from five years to ten years for TIF District No. 1-22 in Windom. In addition, the city of Windom or its economic development authority may extend duration of the TIF district by five years.

- The changes to this special TIF provision may have an impact on the local tax base and tax rate in the future and may result in a small change in property tax refunds paid by the state.

Article 10: Public Finance

Miscellaneous Public Finance Changes (Sections 1-9)

The effective date is July 1, 2021.

The new law makes a number of technical and clarifying changes regarding local government debt financing and sales taxes.

- There is no assumed impact to the state general fund.

Article 11: Miscellaneous

Iron Ore Bearing Material Definition Modified (Sections 20-23)

The effective date is beginning with taxes payable in 2022.

Under current law, taconite mining companies pay the production tax based on the taxable tonnage of taconite pellets produced. Mining operations that result in an end product that does not create taconite pellets are not subject to the taconite production tax.

The new law amends the statutory definition of merchantable iron ore concentrate to ensure the production of lump ore is subject to the production tax.

Under current law, the state general fund annually contributes 22 cents per ton of iron ore concentrate to the production tax distribution pool.

The new law delays the state paying aid for other iron-bearing material until distribution aid 2024.

- It is projected that a mining company using the new lump ore mining process will produce 500,000 tons of lump ore in production year 2021 and will produce 1,000,000 tons in production year 2022 and thereafter.
- Under the new law, taxing the production of lump ore is estimated to increase local taconite production tax revenues by approximately \$1.4 million in payable year 2022 and will

increase to \$2.9 million in payable year 2023. The changes to the various local distributions of taconite production taxes has no impact on the state general fund.

- The state general fund annually contributes 22 cents per ton of taconite to the production tax distribution pool, with 50% paid in February and the remaining 50% paid in August.
- For taxes payable in 2024 and thereafter, the state contribution on 1,000,000 tons of production will increase state costs by \$220,000. The numbers are converted to fiscal years for the purposes of this estimate with 50% of the state contribution paid in February (\$110,000) and the remaining 50% paid in August (\$110,000).

Taconite Distribution Transfer to the City of Biwabik (Section 40)

The effective date is the day following final enactment.

The new law requires a transfer of \$1,500,000 from St. Louis County to the City of Biwabik for road preservation and construction.

- The local transfer will have no effect on the state general fund.

Melrose Fire Remediation Grants (Section 46)

The effective date is the day following final enactment.

The 2017 tax bill appropriated \$1,392,258 from the state general fund to the city of Melrose and Stearns County in response to a 2016 fire. The appropriation for grants was available until June 30, 2018, at which point any unspent amount canceled back to the general fund.

The new law makes a new one-time appropriation of \$643,729 in fiscal year 2022 that is available through June 30, 2023.

- The grant will result in a cost to the state general fund of \$643,729 in fiscal year 2022.

Alexandria Fire Remediation Grants (Section 46)

The effective date is the day following final enactment.

The new law makes a one-time appropriation of \$120,000 from the state general to the commissioner of revenue. The funds may be used for grants associated with a 2020 fire in the city of Alexandria. The grants are available until June 30, 2023.

- The grant will result in a cost to the state general fund of \$120,000 in fiscal year 2022.

Articles 13, 16: Department Policy and Technical Provisions

Article 13 of the new law makes modifications to certain property tax provisions. Changes include:

- Combining required Board of Assessor reports,
- Removing obsolete record retention fees for assessor licensing,
- Clarifying ownership for wind and solar energy production taxes,
- Adjusting the deadline for clerical error corrections for solar energy production tax,
- Fixing statutory cross-references,
- Clarifying assessor education requirements, and
- Clarifying the mortgage registry tax exemption.

Article 16 of the new law makes clarifying changes to the property tax refund inflation adjustment.

- There is no impact to the state general fund.

Source: Minnesota Department of Revenue
Property Tax Division – Research Unit
www.revenue.state.mn.us/research_stats/pages/revenue-analyses.aspx

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